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A NEW CANON OF TAXATION.

BY PROFESSOR E. A. ROSS, OF CORNELL UNIVERSITY.

The direct effects of a tax are two and only two, viz.: Productiveness and prohibitiveness. These two are complementary, mutually exclusive, and together comprise all the effects of a tax. That this is true appears from an analysis of the real nature of a tax.

Every tax is imposed upon a basis; that is, upon some person, act, thing or condition. Let the common term for these be phenomenon. Then the tax may be said to depend upon the phenomena. The phenomenon singled out for taxation is the signal for a contribution. Now to the state the cause of a compulsory contribution is the need of the treasury; the phenomenon is but the occasion. But to the individual the taxed phenomenon cannot appear otherwise than as the cause of the enforced contribution. The payment is the effect. No phenomenon, no payment.

Again, from the social point of view a tax is a good thing, inasmuch as the benefits of government normally far outweigh the cost. But to the individual his tax must appear as a burden, since his enjoyment of civil order is but infinitesimally conditioned by his particular contribution.

From the above it appears that the imposition of a tax is hostile to the taxed phenomena. But whether the phenomena will actually disappear through dread of the tax depends upon the margin of net satisfaction they yield. When this is broad the phenomena

will persist; when this is narrow they will not persist. These two cases give rise to the two classes of effects—productive and prohibitive.

The total burden of a tax appears not simply in what it produces, but also in what it prohibits. This fact has been almost entirely overlooked in the literature of taxation. The obstructiveness and oppressiveness of early taxation was felt rather than explained. It now appears that their evil was due mainly to their prohibitive effects.

All social taxes depend upon their prohibitiveness. Prohibitive workings, then, are justified for such purposes. But in any other species of tax they are oppressive, wasteful and ruinous. The canon of administrative economy laid down by Adam Smith needs to be supplemented by a new canon—the canon of *social economy*. The formula for this is: *A tax for purposes of revenue should have the least possible prohibitive effects.*

Discussion.

Mr. Lester F. Ward: I have been particularly struck with the high ground Dr. Ross takes in his statement. The ordinary idea of a tax is, of course, to raise revenue; and it is only occasionally that the notion of a tax doing anything else enters into the mind. Dr. Ross makes bold to place the prohibitive value of a tax first and its protective value second. I think this is the point of view that deserves serious consideration. It seems to me to be a factor in the progress of mankind that we look more and more into the ultimate effects of social phenomena and not so much into their immediate effects. I would suggest that his word “prohibi-

tive" is not in all respects the exact term. Long ago I used for this same principle the word "attractive," and I think that when we consider it in its widest aspects that adjective will be seen to be exceedingly appropriate. A social prohibitive tax, according to Dr. Ross's definition, is one which is levied for the purpose of inducing those who are subject to it to act in a certain way, which is foreseen by the taxing power to be for the benefit of society. This is a truly scientific action on the part of the state. It does not differ in the slightest respect, so far as I can see, from the methods adopted by the physicist in the laboratory to influence physical phenomena and cause the forces of nature to flow in useful directions. I regard this paper as a study in practical and scientific sociology. It is worthy of consideration that the Economic Association should take these high grounds and cast a glance over the broader field to see what prospect there is that we shall some time rise to a position to treat social phenomena in the way that science treats physical phenomena.

Mr. Frederick B. Hawley: I would like to say a word on the prohibitive effect of taxation on accumulation. Take a given labor force at any time and it will enjoy certain revenues due to wages, or to rents and wages and profits. If the law taxes a product made up entirely of the product of capital it restricts the accumulation of capital, because we raise the relative price of some product of capital. The capital force has to have a motive for accumulation. If you do anything to increase the field for investment of capital, in a few years the country will have more capital. The prevailing tax on real

estate that falls on the occupier has that effect. If we throw taxes on capital we decrease accumulation, and the effect of decreasing accumulation is to decrease the total revenue of the country.

THE THEORY OF PROGRESSIVE TAXATION.

BY PROFESSOR EDWIN R. A. SELIGMAN, OF COLUMBIA COLLEGE.

The arguments that have been advanced in favor of progressive taxation may be grouped in two classes, socialistic and economic. The foremost scientific advocate of the socialistic theory is Wagner, with his doctrine of socio-political taxation. But Wagner's doctrine is inadmissible. From the principle that the state may modify its strict fiscal policy by considerations of general national utility to the principle that it is the duty of the state to redress all inequalities of fortune, is a long and dangerous step. If this were one of the acknowledged functions of government it would be useless to construct any science of finance. It is, however, perfectly possible absolutely to repudiate the socialistic theory of taxation, and yet advocate progression. For instance President Walker, with us, has followed several of the French writers in advocating the compensatory theory of progression, *i. e.*, that where differences of wealth are in a measure due to the state's own acts of omission, compensation should be made therefor. But this theory is not convincing, being utterly useless as a standard. Of a similar character is the argument for ostensible